

Message Text

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ACTION EA-09

INFO OCT-01 EUR-12 ISO-00 CIAE-00 DODE-00 PM-04 H-02
INR-07 L-03 NSAE-00 NSC-05 PA-02 PRS-01 SP-02 SS-15
USIA-15 AID-05 COME-00 EB-07 FRB-01 TRSE-00 XMB-04
OPIC-06 CIEP-02 LAB-04 SIL-01 OMB-01 STR-04 CEA-01
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TO SECSTATE WASHDC 2584
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E.O. 11652: N/A

TAGS: EALR, EGEN, NZ

SUBJECT: PRIME MINISTER MULDOON COMMENTS ON OUTLOOK FOR NZ ECONOMY IN 1977

1. THE PRIME MINISTER, ROBERT MULDOON, RECENTLY SAID THAT HE EXPECTS INFLATION TO RUN AT AT LEAST 10 PER CENT IN 1977 AND THAT GOVERNMENT SPENDING WILL LIKELY INCREASE, THAT THERE WILL BE MORE PRESSURE ON BUSINESS AND HE ANTICIPATES THAT UNEMPLOYMENT WILL INCREASE. HE PREDICTED THAT 1977 WOULD BE A "CRUNCH YEAR".

2. SPEAKING AT A LUNCHEON OF THE OREWА ROTARY CLUB NEAR AUCKLAND WHERE HE IS VACATIONING, MR MULDOON ADVISED NEW ZEALAND BUSINESSMEN TO "PLAY IT SAFE" SAYING "WE'LL GET THROUGH ALL RIGHT BUT DON'T STICK YOUR NECKS OUT". HE WARNED THAT THOUGH THE GOVERNMENT "HAS KIND FEELINGS TOWARD BUSINESS", IN 1977 IT WILL HAVE TO DO "ONE OR TWO THINGS WHICH WILL NOT BE POPULAR". HE DID NOT HINT WHAT THESE MIGHT BE.

3. HE EXPECTED INFLATION TO BE APPROXIMATELY THREE PER CENT
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IN THE FIRST QUARTER OF 1977 AND CLAIMED THAT ANY INCREASE AFTER THAT WOULD BE DEPENDENT ON THE GENERAL WAGE ORDER AND THE SIZE OF THE OIL IMPORT PAYMENTS.

4. THE PRESIDENT OF THE MANUFACTURERS' FEDERATION (MR LLOYD BROWN) REACTED STRONGLY TO THE PRIME MINISTER'S COMMENT THAT MORE PRESSURE WOULD BE PLACED ON THE BUSINESS

SECTOR. MR BROWN WARNED THAT ANY FURTHER PRESSURE ON INDUSTRY (E.G. FURTHER PRICE CONTROLS, HIGHER TAXES ETC.) WOULD BE AT THE RISK OF LESSENING JOB SECURITY.

5. COMMENT: MR MULDOON'S PROPHESY FOR 1977, THOUGH DISCOURAGING, IS NOT UTTERLY BLEAK. HE APPARENTLY FEELS IT IS TIME TO CAUTION ABOUT THE NEED FOR MORE BELT TIGHTENING IN 1977. HE WAS UNDERLINING THE FACT THAT THE FIGHT TO REDUCE INFLATION IS STILL FAR FROM WON. HE WAS ALERTING FELLOW NEW ZEALANDERS THAT THEY WILL SOON BE FEELING THE EFFECTS OF, INTERALIA, THE RECENT OPEC PRICE INCREASE FOR PETROLEUM. HE UNDOUBTEDLY WOULD LIKE TO ENCOURAGE LABOR TO MODERATE ITS DEMANDS FOR WAGE INCREASES. HIS REMARKS WERE JULY NOTED. HE HAS PREPARED NEW ZEALAND FOR YET HARDER TIMES IN 1977 AND WARNED OF THE NEED FOR MORE SACRIFICES. IF THINGS PROVE TO DEVELOP THIS WAY AS IT WELL APPEARS NOW THAT THEY MAY, HE HAS PUT THEM ON THEIR GUARD. HE CANNOT BE ACCUSED OF GENERATING FALSE HOPES OF GOOD TIMES TO COME. ON THE OTHER HAND, IF THINGS SHOULD TURN SOME FOR THE BETTER IN 1977 HIS WORDS OF CAUTION WOULD NOT HAVE DONE HIM HARM.

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